



*Financial Affairs Committee*  
**May 21, 2004**

**1. Participants**

--Brice Bledsoe, Contra Costa WD	--Ron Jacobsma, FWUA (call-in)
--George Senn, CVPWA	--Russell Harrington, Westlands WD
--Lynn Hurley, SCVWD	--Chase Hurley, Panoche WD
--Frances Mizuno, SLDMWA	--Cheryl Pritchett, SCVWD
--Anthea Hansen, Del Puerto WD	--Henry McLaughlin, City of Fresno
--Alan Thompson, EBMUD	--Richard Lou, EBMUD
--Dennis Michum, Glenn-Colusa ID	--Lee Emrick, Colusa County WD (call-in)
--Eric Limas, Lower Tule River ID (call-in)	--Ed Roman, SMUD
--Larry Bauman, USBR	--Barry Mortimeyer, USBR
--Tom Ruthford, USBR	--Linda Bringle, USBR

**2. Opening Business**

The May meeting was held at the ACWA Offices, 910 K Street in Sacramento. The meeting began at 9:30 and concluded about 12:00. The agenda was reviewed and approved. It was suggested and agreed that future agendas should include a review of the prior meeting minutes. The next meeting will be held on June 18, at the ACWA Offices.

**3. 2004 FAC Issues Matrix**

A. Capital/Deficit Rate Development (Bauman/Bledsoe). Larry said that there has been no activity on this issue item since the last FAC meeting. His staff has been busy on other pressing matters and might be able to get back on the issue within the next two weeks. The issue is still a high priority item for Reclamation—staff plans to address it in time for implementation of the 2005 rates. **Action Item** – Larry Bauman to coordinate a meeting between FAC subcommittee and Reclamation to be held on June 10 or 21.

B. Budget Workshops (Senn). George handed out the Budget Review Process paper that was discussed at the May 4 CVPWA BOD/FAC meeting in Monterey. He mentioned that the FAC has been working with Reclamation since 1998 to develop guidelines and provide opportunities for contractor participation in the budget development process. A lot of progress has been made, but more needs to be done. The FAC would like to establish a closer link between the proposed Area Office budget activities that make their way into the Reclamation budget and those that ultimately get included in the overall cost projections that serve as the basis for the water rates. We want to develop a process that would enable us to compare the cost projections used in the water rates to the actual costs included in the annual final accountings to facilitate a budget to actual analysis. Consideration should be given for

resuming the mid-year budget workshops that were discontinued two years ago and/or develop monthly reports that would provide the contractors with the opportunity to evaluate current year results against budget. We would also like to implement a “Pre-Year” budget review workshop—one that would be held after the President’s Budget is made available to the public but before the actual fiscal year begins. Since there is almost a two-year gap between our initial review of a proposed budget and the actual budget, such a workshop would enable us to review and discuss the activities that actually got included in the current year’s budget. As an example of the time gap, we will be discussing Reclamation’s proposed budget for FY2007 in August of this year. **Action Item** -Larry Bauman, to set up a Budget-related meeting to discuss our concerns with the current contractor budget development/review participation process. We have requested that such a meeting be held on June 10 or 21 in conjunction with the meeting on Capital/Deficit Rate Development.

C. Historical PUE True-up Adjustments (Senn). George passed out a summary of his work related to verifying the costs and energy numbers used in the PUE true-ups for the years 2000-2002. He verified the costs and energy numbers used in spreadsheets that were provided by Reclamation to all CVP contractors in late April. All costs were traceable to Western and Reclamation’s financial statements, and because they had been subjected to audits by independent CPA firms, the numbers were not questioned further. The energy numbers were traceable back to the Western’s Power Usage and Billing System “Monthly USBR/Western Project Use Interdepartmental Bill”. He traced the energy and costs assigned to SLDMA meters #815, 517, 915, 925, and 997 for the months of May and September for each of the years. He also verified the PUE allocation formulas used to allocate costs between Preference and PUE. He found no errors in the spreadsheets as presented by Reclamation for review. **Action Item** – Tona Mederios, SLDMWA, to continue working with Reclamation on some outstanding issues related to the allocation of PUE costs within the San Luis Unit.

D. BOR-WORKS Water Accounting Program Development (Bauman). Larry said that the water accounting program continues to have problems—primarily with the generation of certain reports. He said that the key Reclamation programmer who had been with the project since the beginning recently quit and Reclamation is in the process of hiring an Oracle contractor to resolve the programming problems and get the program where it needs to be. These programming fixes are needed in order for Reclamation to generate the water delivery reports for fiscal year 2003 that are reviewed by the contractors for accuracy as part of the 2003 annual accountings and 2005 rate development process. Reclamation does not have a specific date for resolving the reporting problems, but has accelerated other tasks related to the development of the 2005 water rates in order to keep the overall process on track. **Action Item** – Larry Bauman to keep the FAC updated on progress toward resolving reporting problems.

E. Water Transfer Policy Development (Bauman/Bledsoe). Brice mentioned that a small group of water contractor representatives met with Larry and Donna Tegelman in mid April to discuss the status of the Water Transfer Policy. Based on that meeting Donna agreed to put a draft water transfer policy document together for Larry’s review. That document has not yet been made available to the FAC for its review. The main hang-up in the policy

development centers on how to credit the revenues that result from water transfers. Currently the rate for CVP water transfers is the transferor's cost-of-service water rate plus any incremental costs required to move the transferred water from the transferor to the transferee. Revenues associated with the transferor's cost-of-service rate will be credited to the transferor and any incremental revenues will be credited to water marketing. Some water contractors who are the transferees in water transfer sales would like the revenues credited to them. Others would like to have the rates associated with the additional facilities that are required to move the water, to be recalculated to recognize the rate changes that would occur to those using the facilities, as more water is delivered through the facilities than was originally planned. As it stands, there are three options for crediting the incremental revenues resulting from water transfers—to the transferee, to the facilities that are utilized by the transferee, or to Water Marketing, as is currently the case. **Action Item** – George Senn to contact Donna Tegelmann to determine status of Reclamation's development of a letter to the contractors outlining the current status of the development of water transfer policy and status of the draft policy itself.

3. Post 2004 PUE Issues: FAC CAISO White Paper (Harrington). **Action Item** - George Senn will distribute electronic copy of the draft PUE white paper to the FAC for review. Comments should be provided to Russell Harrington in advance of the June 18 FAC to facilitate discussion.
4. FERC Filing Update (Mortimeyer). Barry informed us that related to the FERC filing by PG&E, Western has been negotiating with PG&E for successor contracts to the three PG&E contracts that expire on December 31, 2004. Negotiations have been going good, with both parties making a few concessions. Reclamation is looking to Western to accommodate the Project Use concerns in the negotiations. Barry said that PG&E has agreed to treat Project Use loads as wholesale customers meaning that the transmission/wheeling charges will be much less than the PG&E retail tariff rate. Barry also said that many of Reclamation's loads are covered by contract 2207A which isn't affected by the FERC filing. **Action Item** – Barry Mortimeyer to keep the FAC informed as the negotiations progress. Reclamation continues to negotiate with PG&E on other issues still to be resolved such as the term of the successor contracts—PG&E want 5 year contracts, Reclamation wants 20 year contracts and how to treat takeout points with exit fees.
5. CBDA CALFED Finance Options Report (Hurley). Lynn informed the group that a draft of the Finance Options Report can be found on the CBDA website on the Internet. The draft is 364 pages long, but the summaries of each section are much shorter and are easy to download. She said that the report was put together by a technical team made up of CBDA staff and consultants and is being reviewed by an Independent Review Panel made up of prominent college professors, consultants, and other high level officials. Also reviewing the report are participants of an Ad Hoc Stakeholder and Agency Work Group made up of water knowledgeable individuals from various water districts/agencies/authorities, power organizations, conservation groups, and State resource agencies. The report is scheduled for completion some time in July. Lynn said that the report is quite disturbing in that a large amount of the funding (\$30-70 million per year) required to implement the various options is projected to come from the CVP water and power contractors. Members of the FAC will be

tasked with analyzing and reviewing the Report to determine the financial impacts (cost reimbursability) on the CVP water and power contractors. George has completed a summary review of an earlier version of the Report and has agreed to send it out to the FAC membership for their use as they review the latest version of the Finance Options Report. Lynn also has a Power Point presentation of the Report that she will make available to the FAC membership. **Action Item** – Lynn Hurley is scheduling a meeting with Kate Hansel, Bay Delta Authority, for a small group of CVP/SWC financial representatives to gain a better understanding on how the CVP/SWC cost shares will be recovered and also to help educate Kate on the dynamics of CVP/SWC cost recovery.

On a related CALFED matter, Ron pointed out that HR2828 (Calvert CALFED Bill) authorizes the Secretary of Interior to use existing authorizations to carry out sections of the CALFED Bill. He said that, to the extent that any of the CALFED activities are authorized by the CVPIA, and are identified by Reclamation as reimbursable, the CVP contractors could potentially face additional water costs as CVPIA Restoration Fund revenues are barely covering CVPIA reimbursable expenses. He suggested that interested FAC members should become familiar with HR2828 and then meet by conference call with Bob Stackhouse to decide how to proceed. Brice, Ron, Russell, and Lynn agreed to work on the issue. A conference call is scheduled for May 26 to discuss a strategy and possibly a letter to the appropriate Congressional subcommittee to make sure that the CALFED costs are not passed on to the CVP contractors as reimbursable costs. **Action Item** – Ron to check with Joe Raeder (Ferguson Group lobbyist) regarding drafting language to address CVP cost reimbursement issues and associated level of effort.

6. Status of DMC/CA Intertie Proposal (Mizuno). Frances said that there is nothing new to report.
7. Proposed Addition to the 2004 FAC Issues Matrix (Bledsoe). Reclamation noted that the conversion of CVP water supply from Ag to M&I, as allowed under contract and ratesetting practices, will be accomplished by developing a projected delivery schedule for the M&I component through the remaining project repayment period that would be used for cost allocation and rate development purposes. The contractors Ag delivery schedule would be reduced downward by a like amount. The conversion would be reflected prospectively without any retroactive adjustments. Reclamation is also evaluating the cost allocation and ratesetting issues related to the partial contract assignment for Mercy Springs WD. The outcome of this evaluation will be used as a model for other partial contract assignments currently pending. **Action Item** – The contract assignment issue will be added to the FAC Issues Matrix.